

AUTONATION, INC.
Form 10-K
February 09, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-13107

AutoNation, Inc.

(Exact name of registrant as specified in its charter)

Delaware 73-1105145

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

200 SW 1st Ave
Fort Lauderdale, Florida 33301

(Address of principal executive offices) (Zip Code)

(954) 769-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock, Par Value \$0.01 Per Share New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the new registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2016, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$3.0 billion based on the closing price of the common stock on the New York Stock Exchange on such date (for the purpose of this calculation, the registrant assumed that each of its directors, executive officers, and greater than 10% stockholders was an affiliate of the registrant as of June 30, 2016).

As of February 6, 2017, the registrant had 100,913,153 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2016 are incorporated herein by reference in Part III.

AUTONATION, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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PART I

ITEM 1. BUSINESS

General

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of December 31, 2016, we owned and operated 371 new vehicle franchises from 260 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well-known in our key markets, sell 35 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 94% of the new vehicles that we sold in 2016, are manufactured by Toyota (including Lexus), Ford, Honda, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche).

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service,” which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources. The following charts present the contribution to total revenue and gross profit by each of new vehicle, used vehicle, parts and service, and finance and insurance sales in 2016.

We were incorporated in Delaware in 1991. For convenience, the terms “AutoNation,” “Company,” and “we” are used to refer collectively to AutoNation, Inc. and its subsidiaries, unless otherwise required by the context. Our store operations are conducted by our subsidiaries. The term “digital channels” refers to our websites and mobile applications, including mobile phone and tablet applications.

Reportable Segments

As of December 31, 2016, we had three reportable segments: Domestic, Import, and Premium Luxury. These segments are comprised of retail automotive franchises that sell the following new vehicle brands:

Domestic		Import		Premium Luxury	
Buick	Ford	Acura	Mitsubishi	Alfa Romeo	Lexus
Cadillac	GMC	Fiat	Nissan	Audi	Maserati
Chevrolet	Jeep	Honda	Subaru	Bentley	Mercedes-Benz
Chrysler	Lincoln	Hyundai	Toyota	BMW	MINI
Dodge	Ram	Genesis	Volkswagen	Jaguar	Porsche
		Infiniti	Volvo	Land Rover	smart
		Mazda			

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The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products. For the year ended December 31, 2016, Domestic revenue represented 36% of total revenue, Import revenue represented 32% of total revenue, and Premium Luxury revenue represented 31% of total revenue. For additional financial information regarding our three reportable segments, refer to Note 19 of the Notes to Consolidated Financial Statements set forth in Part II, Item 8 of this Form 10-K.

Except to the extent that differences among reportable segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis.

Business Strategy

We seek to create long-term value for our stockholders by being the best-run, most profitable automotive retailer in the United States. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets. To achieve and sustain operational excellence, we are pursuing the following strategies:

• Create an industry-leading automotive retail customer experience in our stores and through our digital channels.

We seek to deliver a consistently superior customer experience by offering a large selection of inventory, customer-friendly, transparent sales and service processes, and competitive pricing. We believe that this will benefit us by encouraging our customers to bring their vehicles to our stores for all of their vehicle service, maintenance, and collision repair needs and also by driving repeat and referral vehicle sales business.

We continue to make significant investments to build a seamless, end-to-end customer experience in our stores and through our digital channels, and to improve our ability to generate business through those channels. As part of our strategic initiatives, we are implementing “AutoNation Express,” which enables our customers to complete certain automotive retail- and service-related transactions through our digital channels and offers a more fully integrated in-store and digital customer experience while also increasing traffic to our digital channels. We have developed features such as selecting and reserving a vehicle with a guaranteed price, scheduling a test drive, calculating payments, receiving a firm purchase offer for a vehicle that a customer wants to sell, applying for financing options, arranging service appointments, and receiving updates on maintenance and repair services, all of which have been deployed to all of our markets as of December 31, 2016. Future capabilities are expected to include in-store tools to further our customers’ online experience and the ability for a customer to pay for maintenance and repair services online.

• Continue to invest in the AutoNation retail brand to enhance our strong customer satisfaction and expand our market share.

In 2013, we launched the AutoNation retail brand from coast to coast, which enables us to leverage our advertising efforts and digital channels to market our stores, new and used vehicle inventory, and parts and service business. Since the launch of our retail brand, we have extended our branding effort to our digital strategy and to certain finance and insurance products, such as the AutoNation Vehicle Protection Plan. We are currently implementing the next phase of our comprehensive, customer-focused brand extension strategy, which includes:

AutoNation USA stand-alone used vehicle sales and service centers, with 25 potential sites identified, five of which are expected to open in 2017,

AutoNation branded parts and accessories, the launch of which began in the third quarter of 2016, and which will be expanded over the next several years,

the expansion of AutoNation branded collision centers, which includes the unification of our collision centers under the AutoNation retail brand and plans to open or acquire at least 18 new collision centers over the next several years, and

the expansion of AutoNation branded automotive auctions, which, as announced in October 2016, includes plans to open four additional automotive auctions by the end of 2018.

We expect that these initiatives will expand and strengthen the AutoNation retail brand, improve the customer experience, provide new growth opportunities, and enable us to expand our footprint in our core and other markets. In connection with our brand extension strategy, we also launched a one price used vehicle sales model

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during the second half of 2016. The one price model is planned to be fully implemented in all of our stores by the end of the second quarter of 2017.

¶Leverage our significant scale and cost structure to improve our operating efficiency.

As the largest automotive retailer in the United States, we are uniquely positioned to leverage our significant scale so that we are able to achieve competitive operating margins by centralizing and streamlining various business processes. We strive to manage our new and used vehicle inventories so that our stores' supply and mix of vehicles are in line with seasonal sales trends and also minimize our carrying costs. Additionally, we are able to improve financial controls and lower servicing costs by maintaining many key store-level accounting and administrative activities in our Shared Services Center located in Irving, Texas. Finally, we leverage our scale to reduce costs related to purchasing certain equipment, supplies, and services through national vendor relationships.

¶Continue to build vehicle brand density in our core markets where we operate.

We have retail operations in 16 states with a focus on major metropolitan areas, and we seek to offer all of our core vehicle brands within all of our key markets. We will continue to actively pursue acquisitions and new store opportunities that meet our return on investment threshold, with a focus on enhancing brand representation within our existing geographic footprint as well as additional markets that can be supported by our existing management infrastructure.

Our business benefits from a well-diversified portfolio of automotive retail franchises. In 2016, approximately 37% of our segment income was generated by Premium Luxury franchises, approximately 32% by Domestic franchises, and approximately 31% by Import franchises. We believe that our business also benefits from diverse revenue streams generated by our new and used vehicle sales, parts and service business, and finance and insurance sales. Our higher-margin parts and service business has historically been less sensitive to macroeconomic conditions as compared to new and used vehicle sales.

Our capital allocation strategy is focused on maximizing stockholder returns. We invest capital in our business to maintain and upgrade our existing facilities and to build new facilities for existing franchises, as well as for other strategic and technology initiatives, including the next phase of our brand extension strategy discussed above under "Business Strategy." We also deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership acquisitions and/or build facilities for newly awarded franchises. Our capital allocation decisions are based on factors such as the expected rate of return on our investment, the market price of our common stock versus our view of its intrinsic value, the market price of our debt, the potential impact on our capital structure, our ability to complete dealership acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements. For additional information regarding our capital allocation, refer to "Liquidity and Capital Resources – Capital Allocation" in Part II, Item 7 of this Form 10 K.

Operations

Each of our stores acquires new vehicles for retail sale either directly from the applicable automotive manufacturer or distributor or through dealer trades with other stores of the same brand franchise. We generally acquire used vehicles from customers, primarily through trade-ins, as well as through auctions, lease terminations, and other sources, and we generally recondition used vehicles acquired for retail sale in our parts and service departments. Used vehicles that we do not sell at our stores generally are sold at wholesale prices through auctions. See also "Inventory Management" in Part II, Item 7 of this Form 10-K.

Our stores provide a wide range of vehicle maintenance, repair, and collision repair services, including manufacturer recall repairs and other warranty work that can be performed only at franchised dealerships and customer-pay service work. Our parts and service departments also recondition used vehicles acquired by our used vehicle departments and perform minor preparatory work on new vehicles acquired by our new vehicle departments. In addition to our retail business, we also have a wholesale parts operation, which sells automotive parts to both collision repair shops and independent vehicle repair providers. In the third quarter of 2016, we began the launch of AutoNation Precision Parts, a new product line that will be integrated into our parts and service operations, with the expectation of improved customer retention for retail service and our wholesale parts and collision repair businesses through the continued extension of our brand.

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We offer a wide variety of automotive finance and insurance products to our customers. We arrange for our customers to finance vehicles through installment loans or leases with third-party lenders, including the vehicle manufacturers' and distributors' captive finance subsidiaries, in exchange for a commission payable to us. We do not directly finance our customers' vehicle leases or purchases, and our exposure to loss in connection with these financing arrangements generally is limited to the commissions that we receive.

We also offer our customers various vehicle protection products, including an AutoNation-branded extended service contract (the AutoNation Vehicle Protection Plan) in our Domestic and Import stores and other extended service contracts, maintenance programs, guaranteed auto protection (known as "GAP," this protection covers the shortfall between a customer's loan balance and insurance payoff in the event of a casualty), "tire and wheel" protection, and theft protection products. These products are underwritten and administered by independent third parties, including the vehicle manufacturers' and distributors' captive finance subsidiaries. We primarily sell the products on a straight commission basis; however, we also participate in future underwriting profit for certain products pursuant to retrospective commission arrangements with the issuers of those products. See also "Critical Accounting Policies and Estimates – Chargeback Liability" in Part II, Item 7 of this Form 10-K.

As of December 31, 2016, we operated stores in the following states:

State	Number of Stores	Number of Franchises	% of Total Revenue ⁽¹⁾
Florida	52	64	26
Texas	47	76	21
California	40	55	17
Colorado	17	27	7
Arizona	15	18	6
Georgia	23	44	5
Washington	16	23	4
Nevada	11	13	3
Tennessee	8	12	3
Illinois	7	8	3
Maryland	8	10	1
Ohio	4	4	1
Alabama	5	9	1
Virginia	2	2	1
Minnesota	1	1	1
New York	4	5	—
Total	260	371	100

⁽¹⁾ Revenue by state includes non-store activities, such as collision centers and an auction operation.

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The following table sets forth information regarding new vehicle revenues and retail new vehicle unit sales for the year ended, and the number of franchises owned as of, December 31, 2016:

	New Vehicle Revenues (in millions)	Retail New Vehicle Unit Sales	% of Total Retail New Vehicle Units Sold	Franchises Owned
Domestic:				
Ford, Lincoln	\$ 1,836.2	49,651	14.7	40
Chevrolet, Buick, Cadillac, GMC	1,393.3	37,483	11.1	44
Chrysler, Dodge, Jeep, Ram	1,144.2	31,733	9.4	92
Domestic Total	4,373.7	118,867	35.2	176
Import:				
Toyota	1,658.7	59,502	17.6	19
Honda	1,065.7	41,932	12.4	24
Nissan	673.6	25,683	7.6	16
Other Import	691.3	22,888	6.8	43
Import Total	4,089.3	150,005	44.4	102
Premium Luxury:				
Mercedes-Benz	1,639.2	28,938	8.6	45
BMW	838.4	15,295	4.5	13
Lexus	409.5	9,255	2.7	3
Audi	370.1	7,489	2.2	9
Other Premium Luxury	535.6	7,773	2.4	23
Premium Luxury Total	3,792.8	68,750	20.4	93
	\$ 12,255.8	337,622	100.0	371

Agreements with Vehicle Manufacturers**Framework Agreements**

We have entered into framework and related agreements with most major vehicle manufacturers and distributors. These agreements, which are in addition to the franchise agreements described below, contain provisions relating to our management, operation, advertising and marketing, and acquisition and ownership structure of automotive stores franchised by such manufacturers. These agreements contain certain requirements pertaining to our operating performance (with respect to matters such as sales volume, sales effectiveness, and customer satisfaction), which, if we do not satisfy, adversely impact our ability to make further acquisitions of such manufacturers' stores or could result in us being compelled to take certain actions, such as divesting a significantly underperforming store, subject to applicable state franchise laws. Additionally, these agreements set limits (nationally, regionally, and in local markets) on the number of stores that we may acquire of the particular manufacturer and contain certain restrictions on our ability to name and brand our stores. Some of these framework agreements give the manufacturer or distributor the right to acquire at fair market value, or the right to compel us to sell, the automotive stores franchised by that manufacturer or distributor under specified circumstances in the event of a change in control of our Company (generally including certain material changes in the composition of our Board of Directors during a specified time period, the acquisition of 20% or more of the voting stock of our Company by another vehicle manufacturer or distributor, or the acquisition of 50% or more of our voting stock by a person, entity, or group not affiliated with a vehicle manufacturer or distributor) or other extraordinary corporate transactions such as a merger or sale of all or substantially all of our assets. In addition, we have granted certain manufacturers the right to acquire, at fair market value, our automotive dealerships franchised by such manufacturers in specified circumstances in the event of our default under certain of our debt agreements.

Franchise Agreements

We operate each of our new vehicle stores under a franchise agreement with a vehicle manufacturer or distributor. The franchise agreements grant the franchised automotive store a non-exclusive right to sell the manufacturer's or

distributor's

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brand of vehicles and offer related parts and service within a specified market area. These franchise agreements grant our stores the right to use the relevant manufacturer's or distributor's trademarks in connection with their operations, and they also impose numerous operational requirements and restrictions relating to inventory levels, working capital levels, the sales process, marketing and branding, showroom and service facilities, signage, personnel, changes in management, and monthly financial reporting, among other things. The contractual terms of our stores' franchise agreements provide for various durations, ranging from one year to no expiration date, and in certain cases manufacturers have undertaken to renew such franchises upon expiration so long as the store is in compliance with the terms of the agreement. We generally expect our franchise agreements to survive for the foreseeable future and, when the agreements do not have indefinite terms, anticipate routine renewals of the agreements without substantial cost or modification. Our stores' franchise agreements provide for termination of the agreement by the manufacturer or non-renewal for a variety of causes (including performance deficiencies in such areas as sales volume, sales effectiveness, and customer satisfaction). However, in general, the states in which we operate have automotive dealership franchise laws that provide that, notwithstanding the terms of any franchise agreement, it is unlawful for a manufacturer to terminate or not renew a franchise unless "good cause" exists. It generally is difficult, outside of bankruptcy, for a manufacturer to terminate, or not renew, a franchise under these laws, which were designed to protect dealers. In addition, in our experience and historically in the automotive retail industry, dealership franchise agreements are rarely involuntarily terminated or not renewed by the manufacturer outside of bankruptcy. From time to time, certain manufacturers assert sales and customer satisfaction performance deficiencies under the terms of our framework and franchise agreements. We generally work with these manufacturers to address the asserted performance issues. For additional information, please refer to the risk factor captioned "We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores" in Part I, Item 1A of this Form 10-K.

Regulations

We operate in a highly regulated industry. A number of state and federal laws and regulations affect our business. In every state in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales and finance, and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our conduct of business, including those relating to our sales, operations, finance and insurance, advertising, and employment practices. These laws and regulations include state franchise laws and regulations, consumer protection laws, privacy laws, escheatment laws, anti-money laundering laws, and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as a variety of other laws and regulations. These laws also include federal and state wage and hour, anti-discrimination, and other employment practices laws. See the risk factor "Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer" in Part I, Item 1A of this Form 10-K.

Automotive and Other Laws and Regulations

Our operations are subject to the National Traffic and Motor Vehicle Safety Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation, and the rules and regulations of various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to United States customs duties and, in the ordinary course of our business we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

Our financing activities with customers are subject to federal truth-in-lending, consumer leasing, and equal credit opportunity laws and regulations as well as state and local motor vehicle finance laws, leasing laws, installment finance laws, usury laws, and other installment sales and leasing laws and regulations, some of which regulate finance and other fees and charges that may be imposed or received in connection with motor vehicle retail installment sales and leasing. Claims arising out of actual or alleged violations of law may be asserted against us or our stores by individuals, a class of individuals, or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct store operations and fines.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) established the Consumer Financial Protection Bureau (the “CFPB”), an independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are

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generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In addition, the CFPB issued a rule, pursuant to its authority under the Dodd-Frank Act, expanding its supervisory authority with respect to certain non-bank lenders, including automotive finance companies, participating in automotive financing. The Dodd-Frank Act also provided the Federal Trade Commission (the “FTC”) with new and expanded authority regarding automotive dealers, and the FTC has implemented an enforcement initiative relating to the advertising practices of automotive dealers. See the risk factor “Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer” in Part I, Item 1A of this Form 10-K.

Environmental, Health, and Safety Laws and Regulations

Our operations involve the use, handling, storage, and contracting for recycling and/or disposal of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires, and fuel. Consequently, our business is subject to a complex variety of federal, state, and local requirements that regulate the environment and public health and safety.

Most of our stores utilize aboveground storage tanks, and to a lesser extent underground storage tanks, primarily for petroleum-based products. Storage tanks are subject to periodic testing, containment, upgrading, and removal under the Resource Conservation and Recovery Act and its state law counterparts. Clean-up or other remedial action may be necessary in the event of leaks or other discharges from storage tanks or other sources. In addition, water quality protection programs under the federal Water Pollution Control Act (commonly known as the Clean Water Act), the Safe Drinking Water Act, and comparable state and local programs govern certain discharges from some of our operations. Similarly, certain air emissions from operations, such as auto body painting, may be subject to the federal Clean Air Act and related state and local laws. Certain health and safety standards promulgated by the Occupational Safety and Health Administration of the United States Department of Labor and related state agencies also apply. Some of our stores are parties to proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, typically in connection with materials that were sent to former recycling, treatment, and/or disposal facilities owned and operated by independent businesses. The remediation or clean-up of facilities where the release of a regulated hazardous substance occurred is required under CERCLA and other laws.

We have a proactive strategy related to environmental, health, and safety laws and regulations, which includes contracting with third-party vendors to inspect our facilities routinely in an effort to ensure compliance. We incur significant costs to comply with applicable environmental, health, and safety laws and regulations in the ordinary course of our business. We do not anticipate, however, that the costs of such compliance will have a material adverse effect on our business, results of operations, cash flows, or financial condition, although such outcome is possible given the nature of our operations and the extensive environmental, health, and safety regulatory framework. We do not have any material known environmental commitments or contingencies.

Competition

We operate in a highly competitive industry. We believe that the principal competitive factors in the automotive retail business are location, service, price, selection, and online and mobile offerings. Each of our markets includes a large number of well-capitalized competitors that have extensive automotive retail managerial experience and strong retail locations and facilities. According to industry sources, as of December 31, 2016, there were approximately 16,800 franchised automotive dealerships, which sell both new and used vehicles, in the United States. In addition, we estimate that there were approximately twice as many independent used vehicle dealers in the United States. We face competition from (i) several public companies that operate numerous automotive retail stores on a regional or national basis, including franchised dealers that sell new and used vehicles as well as non-franchised dealers that sell only used vehicles, (ii) private companies that operate automotive retail stores in our markets, and (iii) online and mobile sales platforms. We compete with dealers that sell the same vehicle brands that we sell, as well as dealers and certain manufacturers that sell other vehicle brands that we do not represent in a particular market. Our new vehicle store competitors have franchise agreements with the various vehicle manufacturers and, as such, generally have access to new vehicles on the same terms

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as we have. We also compete with other dealers for qualified employees, particularly for general managers and sales and service personnel.

In general, the vehicle manufacturers have designated marketing and sales areas within which only one franchised dealer of a given vehicle brand may operate. Under most of our framework agreements with the vehicle manufacturers, our ability to acquire multiple dealers of a given vehicle brand within a particular market is limited. We are also restricted by various state franchise laws from relocating our stores or establishing new stores of a particular vehicle brand within any area that is served by another dealer of the same vehicle brand, and we generally need the manufacturer to approve the relocation or grant a new franchise in order to relocate or establish a store. However, to the extent that a market has multiple dealers of a particular vehicle brand, as most of our key markets do with respect to most vehicle brands we sell, we face significant intra-brand competition.

We also compete with independent automobile service shops and service center chains. We believe that the principal competitive factors in the parts and service business are price, location, expertise with the particular vehicle lines, and customer service. We also compete with a broad range of financial institutions in our finance and insurance business. We believe that the principal competitive factors in the finance and insurance business are product selection, convenience, price, contract terms, and the ability to finance vehicle protection and aftermarket products.

Insurance and Bonding

Our business exposes us to the risk of liabilities arising out of our operations. For example, liabilities may arise out of claims of employees, customers, or other third parties for personal injury or property damage occurring in the course of our operations. We could also be subject to fines and civil and criminal penalties in connection with alleged violations of federal and state laws or regulatory requirements.

The automotive retail business is also subject to substantial risk of property loss due to the significant concentration of property values at store locations. In our case in particular, our operations are concentrated in states and regions in which natural disasters and severe weather events (such as hail storms, hurricanes, earthquakes, fires, tornadoes, snow storms, and landslides) may subject us to substantial risk of property loss and operational disruption. Under self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles, and claims-handling expenses as part of our various insurance programs, including property and casualty, workers' compensation, and employee medical benefits. Costs in excess of this retained risk per claim may be insured under various contracts with third-party insurance carriers. We estimate the ultimate costs of these retained insurance risks based on actuarial evaluation and historical claims experience, adjusted for current trends and changes in claims-handling procedures. The level of risk we retain may change in the future as insurance market conditions or other factors affecting the economics of our insurance purchasing change. Although we have, subject to certain limitations and exclusions, substantial insurance, we cannot assure you that we will not be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Provisions for retained losses and deductibles are made by charges to expense based upon periodic evaluations of the estimated ultimate liabilities on reported and unreported claims. The insurance companies that underwrite our insurance require that we secure certain of our obligations for deductible reimbursements with collateral. Our collateral requirements are set by the insurance companies and, to date, have been satisfied by posting surety bonds, letters of credit, and/or cash deposits. Our collateral requirements may change from time to time based on, among other things, our claims experience.

Employees

As of December 31, 2016, we employed approximately 26,000 full-time and part-time employees, approximately 260 of whom were covered by collective bargaining agreements. We believe that we have good relations with our employees.

Seasonality

In a stable environment, our operations generally experience higher volumes of vehicle unit sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, demand for vehicles and light trucks is generally lower during the winter months than in other seasons, particularly in regions of the United States where stores may be subject to adverse winter conditions. However, we typically experience higher sales of Premium Luxury vehicles, which have higher average selling prices and gross profit per

vehicle retailed, in

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the fourth quarter. Revenue and operating results may be impacted significantly from quarter to quarter by changing economic conditions, vehicle manufacturer incentive programs, and actual or threatened severe weather events.

Trademarks

We own a number of registered service marks and trademarks, including, among other marks, AutoNation® and AutoNation USA®. Pursuant to agreements with vehicle manufacturers, we have the right to use and display manufacturers' trademarks, logos, and designs at our stores and in our advertising and promotional materials, subject to certain restrictions. We also have licenses pursuant to various agreements with third parties authorizing the use and display of the marks and/or logos of such third parties, subject to certain restrictions. The current registrations of our service marks and trademarks are effective for varying periods of time, which we may renew periodically, provided that we comply with all applicable laws.

Executive Officers of AutoNation

The following sets forth certain information regarding our executive officers as of February 6, 2017. Beneficial ownership includes shares that may be acquired through the exercise of outstanding stock options within 60 days of February 6, 2017, as well as shares of restricted stock.

Name	Age	Position	Years with AutoNation	Years in Automotive Industry	Number of Shares of Common Stock Beneficially Owned
Mike Jackson	68	Chairman of the Board and Chief Executive Officer	17	46	1,640,687
William R. Berman	50	President and Chief Operating Officer	17	29	90,040
Cheryl Miller	44	Executive Vice President and Chief Financial Officer	9	18	101,476
Jonathan P. Ferrando	51	Executive Vice President - General Counsel, Corporate Development and Human Resources	20	20	606,101
Marc Cannon	55	Executive Vice President - Chief Marketing Officer, Communications and Public Policy	19	30	59,107
Donna Parlapiano	52	Executive Vice President, Franchise Operations and Corporate Real Estate	18	30	55,376
Thomas M. Conophy	56	Executive Vice President and Chief Technology Officer	1	1	5,000

Mike Jackson has served as our Chief Executive Officer and Director since September 1999 and as our Chairman of the Board since January 2003. He also served as our President from February 2015 through January 2017. From October 1998 until September 1999, Mr. Jackson served as Chief Executive Officer of Mercedes-Benz USA, LLC, a North American operating unit of DaimlerChrysler AG, a multinational automotive manufacturing company. From April 1997 until September 1999, Mr. Jackson also served as President of Mercedes-Benz USA. From July 1990 until March 1997, Mr. Jackson served in various capacities at Mercedes-Benz USA, including as Executive Vice President immediately prior to his appointment as President of Mercedes-Benz USA. Mr. Jackson was also the managing partner from March 1979 to July 1990 of Euro Motorcars of Bethesda, Maryland, a regional group that owned and operated eleven automotive dealership franchises, including Mercedes-Benz and other brands of automobiles. In January 2014, Mr. Jackson was appointed to the Board of Directors of the Federal Reserve Bank of Atlanta, after previously serving on the Board of Directors of the Federal Reserve Bank of Atlanta's Miami Branch. Since 2015, he has served as the Deputy Chair of the Board of Directors of the Federal Reserve Bank of Atlanta.

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William R. Berman was appointed our President and Chief Operating Officer on January 31, 2017. Prior to that appointment, Mr. Berman served as Executive Vice President and Chief Operating Officer of the Company, a position he assumed in February 2015. Since 1999, Mr. Berman has served in various leadership roles within the Company, including as Senior Vice President, Sales from October 2014 until February 2015, and as President of the Company's Western Region, with responsibility for stores located in California, Washington, Nevada, and Arizona, from October 2008 through September 2014.

Cheryl Miller has served as our Executive Vice President and Chief Financial Officer since March 2014. Prior thereto, Ms. Miller was appointed Interim Chief Financial Officer in January 2014, and she served as Treasurer, Vice President Investor Relations, a role she assumed in April 2010. From May 2009 to March 2010, Ms. Miller served as the Company's Vice President, Treasurer. From November 2006 until April 2009, she served as Vice President, Treasurer of JM Family Enterprises, Inc., a diversified automotive company. Ms. Miller serves as a director of Tyson Foods, Inc.

Jonathan P. Ferrando has served as our Executive Vice President - General Counsel, Corporate Development and Human Resources since March 2011. Prior thereto, he served as our Executive Vice President, General Counsel and Secretary from March 2005 until March 2011, and as the Company's Senior Vice President, General Counsel and Secretary from January 2000 until March 2005. In addition to his role as General Counsel, Mr. Ferrando assumed responsibility for our human resources and labor relations functions in September 2004, and he assumed responsibility for our corporate development function in March 2011. Mr. Ferrando joined our Company in July 1996 and served in various capacities within our Company, including as Senior Vice President and General Counsel of our Automotive Retail Group from March 1998 until January 2000. Prior to joining our company, Mr. Ferrando was a corporate attorney with Skadden, Arps, Slate, Meagher & Flom from 1991 until 1996.

Marc Cannon was appointed Executive Vice President - Chief Marketing Officer, Communications and Public Policy on January 31, 2017. Prior to that appointment, Mr. Cannon served as our Chief Marketing Officer, Senior Vice President of Communications and Public Policy from February 2016 through January 2017. Mr. Cannon is responsible for overseeing the Company's marketing, communications, community affairs, and public policy functions. From February 2007 until February 2016, Mr. Cannon served as our Senior Vice President, Corporate Communications.

Donna Parlapiano was appointed Executive Vice President, Franchise Operations and Corporate Real Estate, on January 31, 2017. Prior to that appointment, Ms. Parlapiano served as our Senior Vice President, Franchise Operations and Corporate Real Estate, from February 2015 through January 2017. Ms. Parlapiano is responsible for our franchise operations, real estate development, construction projects, and facilities maintenance. From November 2006 until January 2015, she served as our Senior Vice President, Franchise Operations, and in February 2015, she assumed responsibility for our corporate real estate function. Prior to joining AutoNation in 1998, Ms. Parlapiano held finance, marketing, and strategic management positions with Ford Motor Company.

Thomas M. Conophy has served as our Executive Vice President and Chief Technology Officer since October 2016. From September 2013 to August 2016, Mr. Conophy served as Executive Vice President and Chief Information Officer of Staples, Inc. From February 2006 to March 2012, he served as Executive Vice President and Chief Information Officer of Intercontinental Hotels Group.

Available Information

Our website is located at www.autonation.com, and our Investor Relations website is located at investors.autonation.com. The information on or accessible through our websites and social media channels is not incorporated by reference in this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on our Investor Relations website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC").

ITEM 1A. RISK FACTORS

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock may be adversely affected by a number of factors, including the matters discussed

below. Certain statements and information set forth in this Annual Report on Form 10-K, including without limitation

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statements regarding our strategic initiatives and expectations for the future performance of our business and the automotive retail industry, as well as other written or oral statements made from time to time by us or by our authorized executive officers on our behalf, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact, including statements that describe our objectives, plans, or goals, are, or may be deemed to be, forward-looking statements. Words such as “anticipate,” “expect,” “intend,” “goal,” “plan,” “believe,” “continue,” “may,” “will,” “could,” and variations of such words and similar expressions are intended to identify such forward-looking statements. Our forward-looking statements reflect our current expectations concerning future results and events, and they involve known and unknown risks, uncertainties, and other factors that are difficult to predict and may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by these statements. These forward-looking statements speak only as of the date of this report or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include the following:

The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.

We believe that many factors affect sales of new vehicles and automotive retailers’ gross profit margins in the United States and in our particular geographic markets, including the economy, fuel prices, credit availability, interest rates, consumer confidence, consumer shopping preferences and the success of third-party online and mobile sales platforms, the level of personal discretionary spending, unemployment rates, the state of housing markets, vehicle production levels and capacity, auto emission and fuel economy standards, the rate of inflation, currency exchange rates, tariffs or border adjustment taxes, manufacturer incentives (and consumers’ reaction to such offers), intense industry competition, the prospects of war, other international conflicts or terrorist attacks, severe weather events, product quality, affordability and innovation, the number of consumers whose vehicle leases are expiring, the length of consumer loans on existing vehicles, and the rise of ride-sharing applications. Changes in interest rates can significantly impact industry new vehicle sales and vehicle affordability due to the direct relationship between interest rates and monthly loan payments, a critical factor for many vehicle buyers, and the impact interest rates have on customers’ borrowing capacity and disposable income. Sales of certain new vehicles, particularly larger trucks and sport utility vehicles that historically have provided us with higher gross profit per vehicle retailed, are sensitive to fuel prices and the level of construction activity. In addition, volatility in fuel prices can cause rapid shifts in consumer preferences which are difficult to accommodate given the long lead-time of inventory acquisition. The imposition of new tariffs or border adjustment taxes could increase prices for vehicles imported into the United States and adversely impact demand for such vehicles.

Approximately 17.5 million, 17.5 million, and 16.5 million new vehicles were sold in the United States in 2016, 2015, and 2014, respectively. While we expect that the annual rate of U.S. new vehicle unit sales will remain above 17 million in 2017, there can be no assurance that it will. If new vehicle production exceeds the new vehicle industry selling rate, our new vehicle gross profit per vehicle retailed could be adversely impacted by excess supply and any resulting changes in incentive, marketing, and other programs of vehicle manufacturers. See the risk factor “Our new vehicle sales are impacted by the incentive, marketing, and other programs of vehicle manufacturers” below. Further, our performance may differ from the performance of the automotive retail industry due to particular economic conditions and other factors in the geographic markets in which we operate. Economic conditions and the other factors described above may also materially adversely impact our sales of used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

Our new vehicle sales are impacted by the incentive, marketing, and other programs of vehicle manufacturers. Most vehicle manufacturers from time to time establish various marketing and sales incentive programs designed to spur consumer demand for their vehicles, particularly during periods of excess supply and/or in a flat or declining new vehicle market. These programs impact our operations, particularly our sales of new vehicles. Since these programs

are often not announced in advance, they can be difficult to plan for when ordering inventory. Furthermore, manufacturers may

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modify and discontinue these marketing and incentive programs from time to time, which could have a material adverse effect on our results of operations and cash flows.

In 2016, our new vehicle unit volume and new vehicle gross profit on a per vehicle retailed basis were adversely impacted by certain manufacturers' disruptive marketing and sales incentive programs based upon store-level growth targets established by those manufacturers (commonly referred to as "stair-step" incentive programs), which result in multi-tier pricing and adversely impact our ability to compete with other dealers. If those manufacturers continue to use such incentive programs or if other manufacturers adopt similar incentive programs, our operating results could continue to be adversely impacted.

We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.

The success of our stores is dependent on vehicle manufacturers in several key respects. First, we rely exclusively on the various vehicle manufacturers for our new vehicle inventory. Our ability to sell new vehicles is dependent on a vehicle manufacturer's ability to produce and allocate to our stores an attractive, high-quality, and desirable product mix at the right time in order to satisfy customer demand. Second, manufacturers generally support their franchisees by providing direct financial assistance in various areas, including, among others, floorplan assistance and advertising assistance. Third, manufacturers provide product warranties and, in some cases, service contracts to customers. Our stores perform warranty and service contract work for vehicles under manufacturer product warranties and service contracts, and direct bill the manufacturer as opposed to invoicing the store customer. At any particular time, we have significant receivables from manufacturers for warranty and service work performed for customers. In addition, we rely on manufacturers to varying extents for original equipment manufactured replacement parts, training, product brochures and point of sale materials, and other items for our stores. Our business, results of operations, and financial condition could be materially adversely affected as a result of any event that has a material adverse effect on the vehicle manufacturers or distributors that are our primary franchisors.

The core brands of vehicles that we sell, representing approximately 94% of the new vehicles that we sold in 2016, are manufactured by Toyota (including Lexus), Ford, Honda, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). We are subject to a concentration of risk in the event of adverse events or financial distress, including bankruptcy, impacting one or more of these manufacturers.

Vehicle manufacturers may be adversely impacted by economic downturns or recessions, significant declines in the sales of their new vehicles, natural disasters, increases in interest rates, adverse fluctuations in currency exchange rates, declines in their credit ratings, labor strikes or similar disruptions (including within their major suppliers), supply shortages or rising raw material costs, rising employee benefit costs, vehicle recall campaigns, adverse publicity that may reduce consumer demand for their products (including due to bankruptcy), product defects, litigation, poor product mix or unappealing vehicle design, governmental laws and regulations (including fuel economy requirements), import product restrictions, the rise of ride-sharing applications, or other adverse events. These and other risks could materially adversely affect any manufacturer and impact its ability to profitably design, market, produce, or distribute new vehicles, which in turn could materially adversely affect our ability to obtain or finance our desired new vehicle inventories, our ability to take advantage of manufacturer financial assistance programs, our ability to collect in full or on a timely basis our manufacturer warranty and other receivables, and/or our ability to obtain other goods and services provided by the impacted manufacturer. In addition, vehicle recall campaigns could materially adversely affect our business, results of operations, and financial condition. The Takata airbag inflator recall, the largest and most complex safety recall in U.S. automotive history, adversely impacted our business in 2016 and may continue to adversely impact our business. See "Takata Airbag Inflator Recall" in Part II, Item 7 of this Form 10-K.

Our business could be materially adversely impacted by the bankruptcy of a major vehicle manufacturer or related lender. For example, (i) a manufacturer in bankruptcy could attempt to terminate all or certain of our franchises, in which case we may not receive adequate compensation for our franchises, (ii) consumer demand for such manufacturer's products could be materially adversely affected, (iii) a lender in bankruptcy could attempt to terminate our floorplan financing and demand repayment of any amounts outstanding, (iv) we may be unable to arrange financing for our customers for their vehicle purchases and leases through such lender, in which case we would be

required to seek financing with alternate financing sources, which may be difficult to obtain on similar terms, if at all, (v) we may be unable to collect some or all of our significant receivables that are due from such manufacturer or lender, and we may be subject to preference claims

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relating to payments made by such manufacturer or lender prior to bankruptcy, and (vi) such manufacturer may be relieved of its indemnification obligations with respect to product liability claims. Additionally, any such bankruptcy may result in us being required to incur impairment charges with respect to the inventory, fixed assets, and intangible assets related to certain franchises, which could adversely impact our results of operations, financial condition, and our ability to remain in compliance with the financial ratios contained in our debt agreements.

If we are not able to maintain and enhance our retail brands and reputation or to attract consumers to our own digital channels, or if events occur that damage our retail brands, reputation, or sales channels, our business and financial results may be harmed. We are investing significantly in the next phase of our brand extension strategy, and if our strategic initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.

We believe that we have built an excellent reputation as an automotive retailer in the United States. During the first half of 2013, we transitioned our Domestic and Import stores to a unified AutoNation retail brand. We believe that our continued success will depend on our ability to maintain and enhance the value of our retail brands across all of our sales channels, including in the communities in which we operate, and to attract consumers to our own digital channels.

Consumers are increasingly shopping for new and used vehicles, automotive repair and maintenance services, and other automotive products and services online and through mobile applications, including through third-party online and mobile sales platforms, with which we compete, that are designed to generate consumer sales leads that are sold to automotive dealers. If we fail to preserve the value of our retail brands, to maintain our reputation, or to attract consumers to our own digital channels, our business could be adversely impacted.

An isolated business incident at a single store could materially adversely affect our other stores, retail brands, reputation, and sales channels, particularly if such incident results in adverse publicity, governmental investigations, or litigation. In addition, the growing use of social media by consumers increases the speed and extent that information and opinions can be shared, and negative posts or comments on social media about AutoNation or any of our stores could materially damage our retail brands, reputation, and sales channels.

We have invested and will continue to invest substantial resources in marketing activities with the goals of, among other things, extending and enhancing the AutoNation retail brand, attracting consumers to our own digital channels, and reducing our use of third-party online and mobile sales platforms. We are also investing significantly in the next phase of our brand extension strategy, which includes the launch of stand-alone used vehicle sales and service centers and branded parts and accessories and the expansion of branded collision centers and automotive auctions. In connection with our brand extension strategy, we also plan to adopt a one price used vehicle sales model at all of our stores. See “Business Strategy” in Part I, Item 1 of this Form 10-K. The roll-out of these strategic initiatives may be impacted by a number of variables, including customer adoption, market conditions, and our ability to identify, acquire, and build out suitable locations in a timely manner. There can be no assurance that our marketing strategies will be successful or that the amount we invest in marketing activities will result in improved financial results. If our marketing initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.

New laws, regulations, or governmental policies regarding fuel economy and greenhouse gas emission standards, or changes to existing standards, may affect vehicle manufacturers’ ability to produce cost-effective vehicles or vehicles that consumers demand, which could adversely impact our business, results of operations, financial condition, cash flow, and prospects.

Vehicle manufacturers are subject to government-mandated fuel economy and greenhouse gas, or GHG, emission standards, which continue to change and become more stringent over time. In May 2010, the Environmental Protection Agency and the National Highway Transportation Safety Administration issued a joint final rule implementing harmonized federal standards for fuel economy and GHG emissions standards, which will substantially increase fuel economy requirements. These and other laws and regulations could materially adversely affect, particularly during periods when fuel prices are low, the ability of manufacturers to produce, and our ability to sell, vehicles in demand by consumers at affordable prices, which could materially adversely impact our business, results of operations, financial condition, cash flow, and prospects.

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Natural disasters and adverse weather events can disrupt our business.

Our stores are concentrated in states and regions in the United States, including primarily Florida, Texas, and California, in which actual or threatened natural disasters and severe weather events (such as hail storms, hurricanes, earthquakes, fires, tornadoes, snow storms, and landslides) may disrupt our store operations, which may adversely impact our business, results of operations, financial condition, and cash flows. In addition to business interruption, the automotive retail business is subject to substantial risk of property loss due to the significant concentration of property values at store locations. We cannot assure you that we will not be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations, or cash flows. In addition, natural disasters may adversely impact new vehicle production and the global automotive supply chain, which in turn could materially adversely impact our business, results of operations, financial conditions, and cash flows.

We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.

Vehicle manufacturers and distributors with whom we hold franchises have significant influence over the operations of our stores. The terms and conditions of our framework, franchise, and related agreements and the manufacturers' interests and objectives may, in certain circumstances, conflict with our interests and objectives. For example, manufacturers can set performance standards with respect to sales volume, sales effectiveness, and customer satisfaction, and can influence our ability to acquire additional stores, the naming and marketing of our stores, our digital channels, our selection of store management, product stocking and advertising spending levels, and the level at which we capitalize our stores. Manufacturers also impose minimum facility requirements that can require significant capital expenditures. Manufacturers may also have certain rights to restrict our ability to provide guaranties of our operating companies, pledges of the capital stock of our subsidiaries, and liens on our assets, which could adversely impact our ability to obtain financing for our business and operations on favorable terms or at desired levels. From time to time, we are precluded under agreements with certain manufacturers from acquiring additional franchises, or subject to other adverse actions, to the extent we are not meeting certain performance criteria at our existing stores (with respect to matters such as sales volume, sales effectiveness, and customer satisfaction) until our performance improves in accordance with the agreements, subject to applicable state franchise laws.

Manufacturers also have the right to establish new franchises or relocate existing franchises, subject to applicable state franchise laws. The establishment or relocation of franchises in our markets could have a material adverse effect on the financial condition, results of operations, cash flows, and prospects of our stores in the market in which the franchise action is taken.

Our framework, franchise, and related agreements also grant the manufacturer the right to terminate or compel us to sell our franchise for a variety of reasons (including uncured performance deficiencies, any unapproved change of ownership or management, or any unapproved transfer of franchise rights or impairment of financial standing or failure to meet capital requirements), subject to applicable state franchise laws. From time to time, certain major manufacturers assert sales and customer satisfaction performance deficiencies under the terms of our framework and franchise agreements. Additionally, our framework agreements contain restrictions regarding a change in control, which may be outside of our control. See "Agreements with Vehicle Manufacturers" in Part I, Item 1 of this Form 10-K. While we believe that we will be able to renew all of our franchise agreements, we cannot guarantee that all of our franchise agreements will be renewed or that the terms of the renewals will be favorable to us. We cannot assure you that our stores will be able to comply with manufacturers' sales, customer satisfaction, performance, facility, and other requirements in the future, which may affect our ability to acquire new stores or renew our franchise agreements, or subject us to other adverse actions, including termination or compelled sale of a franchise, any of which could have a material adverse effect on our financial condition, results of operations, cash flows, and prospects. Furthermore, we rely on the protection of state franchise laws in the states in which we operate and if those laws are repealed or weakened, our framework, franchise, and related agreements may become more susceptible to termination, non-renewal, or renegotiation.

In addition, we have granted certain manufacturers the right to acquire, at fair market value, our automotive dealerships franchised by that manufacturer in specified circumstances in the event of our default under certain of our debt agreements.

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We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, wage and hour and other employment-related lawsuits, and actions brought by governmental authorities. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years.

We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, results of operations, financial condition, cash flows, or prospects. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition, cash flows, and prospects.

Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.

The automotive retail industry, including our facilities and operations, is subject to a wide range of federal, state, and local laws and regulations, such as those relating to motor vehicle sales, retail installment sales, leasing, finance and insurance, advertising, licensing, consumer protection, consumer privacy, escheatment, anti-money laundering, the environment, vehicle emissions and fuel economy, health and safety, and employment practices. With respect to motor vehicle sales, retail installment sales, leasing, finance and insurance, and advertising, we are subject to various laws and regulations, the violation of which could subject us to consumer class action or other lawsuits or governmental investigations and adverse publicity, in addition to administrative, civil, or criminal sanctions. With respect to employment practices, we are subject to various laws and regulations, including complex federal, state, and local wage and hour and anti-discrimination laws. We are also subject to lawsuits and governmental investigations alleging violations of these laws and regulations, including purported class action lawsuits, which could result in significant liability, fines, and penalties. See the risk factor “We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects” above. The violation of other laws and regulations to which we are subject also can result in administrative, civil, or criminal sanctions against us, which may include a cease and desist order against the subject operations or even revocation or suspension of our license to operate the subject business, as well as significant fines and penalties. We currently devote significant resources to comply with applicable federal, state, and local regulation of health, safety, environmental, zoning, and land use regulations, and we may need to spend additional time, effort, and money to keep our operations and existing or acquired facilities in compliance therewith. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able to satisfy them. Failure to comply with applicable laws and regulations or the unfavorable resolution of one or more lawsuits or governmental investigations may have an adverse effect on our business, results of operations, financial condition, cash flows, and prospects.

The Dodd-Frank Act established the CFPB, an independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In addition, the CFPB issued a rule, pursuant to its authority under the Dodd-Frank Act, expanding its supervisory authority with respect to certain non-bank lenders, including automotive finance companies, participating in automotive financing. The Dodd-Frank Act also provided the FTC with new and expanded authority regarding automotive dealers, and the FTC has implemented an enforcement initiative relating to the advertising practices of automotive dealers. Regulation from the CFPB or other federal agencies could lead to significant changes in the manner that dealers are compensated for arranging customer financing, and while it is difficult to predict how any such changes might impact us, any adverse changes could have a material adverse impact

on our finance and insurance business and results of operations.

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A failure of our information systems or any security breach or unauthorized disclosure of confidential information could have a material adverse effect on our business.

Our business is dependent upon the efficient operation of our information systems. We rely on our information systems to manage, among other things, our sales, inventory, and service efforts, including through our digital channels, and customer information, as well as to prepare our consolidated financial and operating data. The failure of our information systems to perform as designed or the failure to maintain and enhance or protect the integrity of these systems could disrupt our business operations, impact sales and results of operations, expose us to customer or third-party claims, or result in adverse publicity. Additionally, we collect, process, and retain sensitive and confidential customer information in the normal course of our business. Despite the security measures we have in place and any additional measures we may implement in the future, our facilities and systems, and those of our third-party service providers, could experience security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. For example, several well-known retailers have disclosed high-profile security breaches, involving sophisticated and highly targeted attacks on their company's infrastructure or their customers' data, which were not recognized or detected until after such retailers had been affected notwithstanding the preventative measures such retailers had in place. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, whether by us directly or our third-party service providers, could damage our reputation, expose us to the risks of litigation and liability, disrupt our business, or otherwise affect our results of operations.

Our debt agreements contain certain financial ratios and other restrictions on our ability to conduct our business, and our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.

The credit agreement governing our revolving credit facility, our mortgage facility, and the indentures relating to our 6.75% Senior Notes due 2018, 5.5% Senior Notes due 2020, 3.35% Senior Notes due 2021, and 4.5% Senior Notes due 2025 contain covenants that limit the discretion of our management with respect to various business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, and to sell or otherwise dispose of assets and to merge or consolidate with other entities. A failure by us to comply with the obligations contained in any of our debt agreements could result in an event of default, which could permit acceleration of the related debt as well as acceleration of debt under other debt agreements that contain cross-acceleration or cross-default provisions. If any debt is accelerated, our liquid assets may not be sufficient to repay in full such indebtedness and our other indebtedness. Additionally, we have granted certain manufacturers the right to acquire, at fair market value, our automotive stores franchised by those manufacturers in specified circumstances in the event of our default under our debt agreements.

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and a maximum capitalization ratio. See "Liquidity and Capital Resources — Restrictions and Covenants" in Part II, Item 7 of this Form 10-K. If our earnings decline, we may be unable to comply with the financial ratios required by our credit agreement. In such case, we would seek an amendment or waiver of our credit agreement or consider other options, such as raising capital through an equity issuance to pay down debt, which could be dilutive to stockholders. There can be no assurance that our lenders would agree to an amendment or waiver of our credit agreement. In the event we obtain an amendment or waiver of our credit agreement, we would likely incur additional fees and higher interest expense. As of December 31, 2016, we had \$2.7 billion of total non-vehicle debt (including amounts outstanding under our mortgage facility and capital leases) and \$3.8 billion of vehicle floorplan financing. Our substantial indebtedness could have important consequences. For example:

• We may have difficulty satisfying our debt service obligations and, if we fail to comply with these requirements, an event of default could result;

• We may be required to dedicate a substantial portion of our cash flow from operations to make required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions, and other general corporate activities;

• Covenants relating to our indebtedness may limit our ability to obtain financing for working capital, capital expenditures, acquisitions, and other general corporate activities;

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• Covenants relating to our indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

• We may be more vulnerable to the impact of economic downturns and adverse developments in our business;

• We may be placed at a competitive disadvantage against any less leveraged competitors;

• Our variable interest rate debt will fluctuate with changing market conditions and, accordingly, our interest expense will increase if interest rates rise; and

• Future share repurchases may be limited by the maximum leverage ratio and/or maximum capitalization ratio described above.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations, prospects, and ability to satisfy our debt service obligations.

We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and commercial paper program that could have a material adverse effect on our profitability.

Our vehicle floorplan payables and revolving credit facility are subject to variable interest rates, and the interest rate for our commercial paper notes varies based on duration and market conditions. Accordingly, our interest expense will fluctuate with changing market conditions and will increase if interest rates rise. In addition, our net new vehicle inventory carrying cost (new vehicle floorplan interest expense net of floorplan assistance that we receive from automotive manufacturers) may increase due to changes in interest rates, inventory levels, and manufacturer assistance. We cannot assure you that a significant increase in interest rates would not have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our goodwill and other intangible assets for impairment at least annually, which could result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and shareholders' equity.

Goodwill and indefinite-lived intangible assets are subject to impairment assessments at least annually (or more frequently when events or changes in circumstances indicate that an impairment may have occurred) by applying a fair-value based test. Our principal intangible assets are goodwill and our rights under our franchise agreements with vehicle manufacturers. A decrease in our market capitalization or profitability increases the risk of goodwill impairment. Negative or declining cash flows or a decline in actual or planned revenues for our stores increases the risk of franchise rights impairment. An impairment loss could have a material adverse impact on our results of operations and shareholders' equity. During 2015, we recorded non-cash impairment charges of \$15.4 million (\$9.6 million after-tax) associated with franchise rights recorded at our Volkswagen stores. See Note 16 of the Notes to Consolidated Financial Statements for more information.

Our largest stockholders, as a result of their ownership stakes in us, may have the ability to exert substantial influence over actions to be taken or approved by our stockholders or Board of Directors. In addition, future share repurchases and fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.

Based on filings made with the SEC through February 6, 2017, William H. Gates III beneficially owns approximately 20% of the outstanding shares of our common stock, through holdings by Cascade Investment, L.L.C. ("Cascade"), which is solely owned by Mr. Gates, and the Bill & Melinda Gates Foundation Trust (the "Trust"), of which he is a co-trustee. As a result, Cascade and the Trust may have the ability to exert substantial influence over actions to be taken or approved by our stockholders, including the election of directors and any transactions involving a change of control. In addition, Michael Larson, the chief investment officer for William H. Gates III and Business Manager for Cascade, serves as our lead independent director. Cascade and the Trust, therefore, may also have the ability to exert substantial influence over actions to be taken or approved by our Board.

Based on filings made with the SEC through February 6, 2017, ESL Investments, Inc. together with certain of its investment affiliates (collectively, "ESL") beneficially owns approximately 16% of the outstanding shares of our common

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stock. As a result, ESL may also have the ability to exert substantial influence over actions to be taken or approved by our stockholders, including the election of directors and any transactions involving a change of control.

In the future, our largest stockholders may acquire or dispose of shares of our common stock and thereby increase or decrease their ownership stake in us. Based on filings made with the SEC through February 6, 2017, since January 1, 2016, ESL has disposed of approximately 1.9 million shares of our common stock. Significant fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.

In the aggregate, based on filings made with the SEC through February 6, 2017, ESL, Cascade, the Trust, our executive officers, and our directors beneficially own approximately 40% of our outstanding shares. Future share repurchases by the Company, together with any future share purchases by our affiliates, will reduce our “public float” (shares owned by non-affiliate stockholders and available for trading). Such reduction in our public float could decrease the volume of trading and liquidity of our common stock, could lead to increased volatility in the market price of our common stock, or could adversely impact the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our current corporate headquarters facility in Fort Lauderdale, Florida, pursuant to a lease expiring on December 31, 2020. We also own or lease numerous facilities relating to our operations under each of our operating segments. These facilities are located in the following 16 states: Alabama, Arizona, California, Colorado, Florida, Georgia, Illinois, Maryland, Minnesota, Nevada, New York, Ohio, Tennessee, Texas, Virginia, and Washington. These facilities consist primarily of automobile showrooms, display lots, service facilities, collision repair centers, supply facilities, automobile storage lots, parking lots, and offices. We believe that our facilities are sufficient for our current needs and are in good condition in all material respects.

ITEM 3. LEGAL PROCEEDINGS

We are involved and will continue to be involved in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, wage and hour and other employment-related lawsuits, and actions brought by governmental authorities. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition, cash flow, and prospects.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders, and Dividends

Our common stock is traded on the New York Stock Exchange under the symbol "AN." The following table sets forth the high and low sales prices of our common stock for the periods indicated.

	High	Low
2016		
Fourth Quarter	\$50.46	\$39.28
Third Quarter	\$54.15	\$45.19
Second Quarter	\$52.04	\$43.78
First Quarter	\$59.22	\$40.45
2015		
Fourth Quarter	\$65.51	\$55.95
Third Quarter	\$66.63	\$53.73
Second Quarter	\$67.50	\$61.19
First Quarter	\$65.00	\$55.91

As of February 6, 2017, there were 1,639 holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not currently anticipate paying cash dividends for the foreseeable future.

Issuer Purchases of Equity Securities

The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during 2016.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) ⁽¹⁾
October 1, 2016 – October 31, 2016	240,452	\$ 47.03	239,473	\$ 313.7
November 1, 2016 – November 30, 2016	357,854	\$ 42.46	357,600	\$ 298.6
December 1, 2016 – December 31, 2016	—	\$ —	—	\$ 298.6
Total for three months ended December 31, 2016	598,306		597,073	
Total for twelve months ended December 31, 2016	10,546,046		10,507,140	

Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. As of December 31, 2016, \$298.6 million remained available under our stock repurchase limit most recently authorized by our Board of Directors. Our stock repurchase program does not have an expiration date. In 2016, all of our shares were repurchased under our stock repurchase program, except for 38,906 shares that were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock (8,760 shares in the first quarter of 2016, 24,125 shares in the second quarter of 2016, 4,788 shares in the third quarter of 2016, and 1,233 shares in the fourth quarter of 2016).

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Stock Performance Graph

The following graph and table compare the cumulative total stockholder return on our common stock from December 31, 2011 through December 31, 2016 with the performance of: (i) the Standard & Poor's ("S&P") 500 Index and (ii) a self-constructed peer group consisting of other public companies in the automotive retail market, referred to as the "Public Auto Retail Peer Group." The Public Auto Retail Peer Group consists of Asbury Automotive Group, Inc., CarMax, Inc., Group 1 Automotive, Inc., Lithia Motors, Inc., Penske Automotive Group, Inc., and Sonic Automotive, Inc., and these companies are weighted by market capitalization. We have created these comparisons using data supplied by Research Data Group, Inc. The comparisons reflected in the graph and table are not intended to forecast the future performance of our stock and may not be indicative of future performance. The graph and table assume that \$100 was invested on December 31, 2011 in each of our common stock, the S&P 500 Index, and the Public Auto Retail Peer Group and that any dividends were reinvested.

Comparison of Five-Year Cumulative Return for AutoNation, Inc., the S&P 500 Index,
and the Public Auto Retail Peer Group

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	12/11	12/12	12/13	12/14	12/15	12/16
AutoNation Inc.	100.00	107.68	134.77	163.85	161.81	131.95
S&P 500	100.00	116.00	153.58	174.60	177.01	198.18
Public Auto Retail Peer Group	100.00	132.93	180.62	235.46	204.35	231.04

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ITEM 6. SELECTED FINANCIAL DATA

You should read the following Selected Financial Data in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our Consolidated Financial Statements and Notes thereto, and other financial information included elsewhere in this Form 10-K.

(In millions, except per share data and unit sales)	As of and for the Years Ended December 31,				
	2016	2015	2014	2013	2012
Consolidated Statements of Income Data:					
Revenue	\$21,609.0	\$20,862.0	\$19,108.8	\$17,517.6	\$15,667.5
Income from continuing operations before income taxes	\$702.3	\$722.7	\$682.3	\$604.4	\$516.8
Net income	\$430.5	\$442.6	\$418.7	\$374.9	\$316.4
Basic earnings (loss) per share:					
Continuing operations	\$4.19	\$3.94	\$3.58	\$3.10	\$2.56
Discontinued operations	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)
Net income	\$4.18	\$3.93	\$3.57	\$3.09	\$2.56
Weighted average common shares outstanding	103.1	112.7	117.3	121.3	123.8
Diluted earnings (loss) per share:					
Continuing operations	\$4.16	\$3.90	\$3.53	\$3.05	\$2.52
Discontinued operations	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)
Net income	\$4.15	\$3.89	\$3.52	\$3.04	\$2.52
Weighted average common shares outstanding	103.8	113.9	118.9	123.3	125.8
Common shares outstanding, net of treasury stock	100.7	110.8	113.3	120.9	120.9
Consolidated Balance Sheets Data:					
Total assets ⁽¹⁾	\$10,060.0	\$9,548.2	\$8,395.0	\$7,905.9	\$7,193.1
Long-term debt, net of current maturities ⁽¹⁾	\$1,611.1	\$1,745.3	\$2,098.7	\$1,801.6	\$2,056.4
Shareholders’ equity	\$2,310.3	\$2,349.3	\$2,072.1	\$2,061.7	\$1,688.5
Retail vehicle unit sales (continuing operations):					
New vehicle	337,622	339,080	318,008	292,922	267,784
Used vehicle	225,713	227,290	214,910	204,572	180,955
Total	563,335	566,370	532,918	497,494	448,739

⁽¹⁾ We adopted an accounting standard update that requires debt issuance costs be presented on the balance sheet as a reduction from the carrying amount of the related debt liability. We adopted the standard retrospectively effective January 1, 2016, and have presented all debt issuance costs, with the exception of those related to our revolving credit facility, as a reduction from the carrying amount of the related debt liability for both current and prior periods. See Note 7 of the Notes to Consolidated Financial Statements for additional information.

See the Notes to Consolidated Financial Statements for additional information. See Part II, Item 5 of this Form 10-K for a discussion of our dividend policy.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Part I, including matters set forth in the "Risk Factors" section of this Form 10-K, and our Consolidated Financial Statements and notes thereto included in Part II, Item 8 of this Form 10-K.

Except to the extent that differences among reportable segments are material to an understanding of our business taken as a whole, we present the discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations on a consolidated basis.

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of December 31, 2016, we owned and operated 371 new vehicle franchises from 260 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 35 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 94% of the new vehicles that we sold in 2016, are manufactured by Toyota (including Lexus), Ford, Honda, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche).

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service," which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources.

As of December 31, 2016, we had three reportable segments: Domestic, Import, and Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by General Motors, Ford, and FCA US. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Lexus, and Audi. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the year ended December 31, 2016, new vehicle sales accounted for approximately 57% of our total revenue, and approximately 19% of our total gross profit. Used vehicle sales accounted for approximately 23% of our total revenue, and approximately 10% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 20% of total revenue, contributed approximately 70% of our gross profit.

Market Conditions

Full-year U.S. industry new vehicle unit sales were 17.5 million in 2016, as compared to 17.5 million in 2015 and 16.5 million in 2014. U.S. industry new vehicle unit retail sales were down 1% as compared to the prior year. We expect that full-year U.S. industry new vehicle unit sales in 2017 will remain above 17 million. However, actual sales may materially differ. Based on industry data, vehicle leasing is at a historically-high level. To the extent that vehicle manufacturers reduce their support for leasing programs, U.S. industry and our new vehicle unit retail sales could be adversely impacted.

Our new vehicle unit volume and new vehicle gross profit on a per vehicle retailed ("PVR") basis were adversely impacted by certain manufacturers' disruptive marketing and sales incentive programs, which are based upon store-level growth targets established by those manufacturers, and which result in multi-tier pricing. If those manufacturers continue to use such incentive programs or if other manufacturers adopt similar incentive programs, our operating results could continue to be adversely impacted.

The number of recent-model-year vehicles in operation is growing due to increases in the annual rate of new vehicle sales in the United States since 2009. The growth in that portion of our service base, together with our customer retention efforts, has benefited the customer-pay service and warranty components of our parts and service business, and we believe that it will continue to benefit those components for the next several years. While the number of older vehicles in operation

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has declined in recent years and is expected to continue to decline over the next few years, we believe that overall our parts and service business will benefit from the mix shift in our service base toward newer vehicles.

Results of Operations

We had net income from continuing operations of \$431.7 million and diluted earnings per share of \$4.16 in 2016, as compared to net income from continuing operations of \$443.7 million and diluted earnings per share of \$3.90 in 2015, and net income from continuing operations of \$419.8 million and diluted earnings per share of \$3.53 in 2014.

Our retail new vehicle unit sales were down slightly in 2016 as compared to 2015. The disruptive manufacturer marketing and sales incentive programs discussed above under “Market Conditions” had a negative impact on our new vehicle unit volume and gross profit PVR. New vehicle gross profit PVR compression was partially offset by continued strength in finance and insurance gross profit PVR. Used vehicle unit volume and gross profit were adversely impacted by the Takata airbag inflator recall discussed below. Our total gross profit for 2016 increased 2%, as compared to 2015, primarily due to the acquisitions we completed in 2016 and 2015 and an increase in parts and service gross profit.

Net income from continuing operations benefited from net after-tax gains related to business/property dispositions (net of property impairments) of \$30.1 million in 2016, \$11.1 million in 2015, and \$7.7 million in 2014, as well as net after-tax gains related to legal settlements of \$8.9 million in 2016 and \$2.5 million in 2014. See “Other Income, Net” below.

Strategic Initiatives

In 2013, we launched the AutoNation retail brand from coast to coast. During 2015, that branding effort was extended to AutoNation Express and the AutoNation Vehicle Protection Plan. We recently announced the next phase of our comprehensive, customer-focused brand extension strategy, which includes:

- AutoNation USA stand-alone used vehicle sales and service centers, with 25 potential sites identified, five of which are expected to open in 2017,

- AutoNation branded parts and accessories, the launch of which began in the third quarter of 2016, and which will be expanded over the next several years,

- the expansion of AutoNation branded collision centers, which includes the unification of our collision centers under the AutoNation retail brand and plans to open or acquire at least 18 new collision centers over the next several years, and

- the expansion of AutoNation branded automotive auctions, which, as announced in October 2016, includes plans to open four additional automotive auctions by the end of 2018.

We expect that these initiatives will expand and strengthen the AutoNation retail brand, improve the customer experience, provide new growth opportunities, and enable us to expand our footprint in our core and other markets. We expect that our investments in this phase of our brand extension roll-out, which may exceed \$500 million in the aggregate, will continue for the next several years. The roll-out of these strategic initiatives may be impacted by a number of variables, including customer adoption, market conditions, and our ability to identify, acquire, and build out suitable locations in a timely manner. See “Risk Factors” in Part I, Item 1A of this Form 10-K.

In connection with our brand extension strategy, we also launched a one price used vehicle sales model during the second half of 2016. The one price model is planned to be fully implemented in all of our stores by the end of the second quarter of 2017.

Takata Airbag Inflator Recall

Used vehicle unit volume and gross profit in 2016 were adversely impacted by the Takata airbag inflator recall, the largest and most complex safety recall in U.S. automotive history. This recall has been disruptive to our business, as the vehicle inventory subject to this recall has been placed on a retail sales-hold by several manufacturers until parts become available to replace the defective airbag inflators. Certain manufacturers provide financial support for select vehicles that are on a retail sales-hold as a result of the recall, which serves to reduce our costs associated with those vehicles. We cannot predict when or how many replacement parts will become available, the number of additional affected vehicles that we will

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acquire through trade-ins, or the amount of financial support we will receive from the manufacturers of such vehicles in the future, and this recall may continue to adversely impact our business.

Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or market in our Consolidated Balance Sheets. We monitor our vehicle inventory levels closely based on current economic conditions and seasonal sales trends.

We have generally not experienced losses on the sale of new vehicle inventory, in part due to incentives provided by manufacturers to promote sales of new vehicles and our inventory management practices. We had 75,117 units in new vehicle inventory at December 31, 2016, and 80,442 units at December 31, 2015. See “New Vehicle Inventories” below for more information.

We recondition the majority of used vehicles acquired for retail sale in our parts and service departments and capitalize the related costs to the used vehicle inventory. Used vehicles that are not sold on a retail basis are generally liquidated at wholesale auctions. We record estimated losses on used vehicle inventory. Our used vehicle inventory balance was net of cumulative write-downs of \$5.9 million at December 31, 2016, and \$4.5 million at December 31, 2015.

Parts, accessories, and other inventory are carried at the lower of acquisition cost (first-in, first-out method) or market. We estimate the amount of potential obsolete inventory based upon past experience, manufacturer return policies, and industry trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of \$3.9 million at December 31, 2016, and \$3.5 million at December 31, 2015.

Critical Accounting Policies and Estimates

We prepare our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis and we base our estimates on historical experience and various other assumptions we believe to be reasonable. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our Consolidated Financial Statements. Set forth below are the policies and estimates that we have identified as critical to our business operations and an understanding of our results of operations, based on the high degree of judgment or complexity in their application.

Goodwill

Goodwill for our Domestic, Import, and Premium Luxury reporting units is tested for impairment annually on April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill impairment test. We completed our qualitative assessment of potential goodwill impairment as of April 30, 2016, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts.

As of December 31, 2016, we have \$252.1 million of goodwill related to the Domestic reporting unit, \$558.2 million related to the Import reporting unit, \$697.4 million related to the Premium Luxury reporting unit, and \$3.6 million in “Corporate and other.”

Other Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually on April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred.

Our franchise rights, which related to 69 stores and totaled \$546.4 million at April 30, 2016, are evaluated for impairment on a franchise-by-franchise basis annually. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a

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quantitative impairment test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2016. Based on our qualitative assessment, we determined that we should perform a quantitative test for certain franchise rights; however, no impairment charges resulted from these quantitative tests.

The quantitative impairment test for franchise rights requires the comparison of the franchise rights' estimated fair value to carrying value by store. Fair values of rights under franchise agreements are estimated using Level 3 inputs by discounting expected future cash flows of the store. The forecasted cash flows contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins, working capital requirements, capital expenditures, and cost of capital, for which we utilize certain market participant-based assumptions, using third-party industry projections, economic projections, and other marketplace data we believe to be reasonable. If, hypothetically, the fair value of each of the franchise rights quantitatively tested had been determined to be 10% lower as of the valuation date, no impairment charge would have resulted. The effect of a hypothetical 10% decrease in fair value estimates is not intended to provide a sensitivity analysis of every potential outcome.

Long-Lived Assets

We estimate the depreciable lives of our property and equipment, including leasehold improvements, and review them for impairment when events or changes in circumstances indicate that their carrying amounts may be impaired. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, a current expectation that more-likely-than-not a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life, or a current-period operating or cash flow loss combined with historical losses or projected future losses.

When evaluating potential impairment of long-lived assets held and used, we first compare the carrying amount of the asset group to the asset group's estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying amount of the asset group, we then compare the carrying amount of the asset group to the asset group's estimated fair value to determine if impairment exists. The fair value measurements for our long-lived assets held and used were based on Level 3 inputs, which considered information obtained from third-party real estate valuation sources. See Note 16 of the Notes to Consolidated Financial Statements for more information about our fair value measurements. We recognize an impairment loss if the amount of the asset group's carrying amount exceeds the asset group's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset group becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated over the remaining useful life of that asset.

When property and equipment is identified as held for sale, we reclassify the held for sale assets to Other Current Assets and cease recording depreciation. We measure each long-lived asset or disposal group at the lower of its carrying amount or fair value less cost to sell and recognize a loss for any initial adjustment of the long-lived asset's or disposal group's carrying amount to fair value less cost to sell in the period the "held for sale" criteria are met. We periodically evaluate the carrying value of assets held for sale to determine if, based on market conditions, the values of these assets should be adjusted. Any subsequent change in the fair value less cost to sell (increase or decrease) of each asset held for sale is reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset or disposal group at the time it was initially classified as held for sale. Such valuations include estimations of fair values and incremental direct costs to transact a sale. The fair value measurements for our long-lived assets held for sale were based on Level 3 inputs, which considered information obtained from third-party real estate valuation sources, or, in certain cases, pending agreements to sell the related assets.

We had assets held for sale in continuing operations of \$41.4 million at December 31, 2016, and \$47.1 million at December 31, 2015, and assets held for sale in discontinued operations of \$15.7 million at December 31, 2016, and \$22.3 million at December 31, 2015.

The fair value measurements for our property and equipment and assets held for sale are based on Level 3 inputs, which considered information from third-party real estate valuation sources, or, in certain cases, pending agreements to sell the related assets. See Note 16 of the Notes to Consolidated Financial Statements for more information on our fair value measurement valuation process and impairment charges that were recorded during 2016 and 2015. Our impairment loss calculations contain uncertainties because they require us to make assumptions and to apply judgment

to estimate future undiscounted cash flows and asset fair values, including forecasting useful lives of the assets. Although we believe our

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property and equipment and assets held for sale are appropriately valued, the assumptions and estimates used may change and we may be required to record impairment charges to reduce the value of these assets.

Chargeback Liability

Revenue on finance and insurance products represents commissions earned by us for the placement of: (i) loans and leases with financial institutions in connection with customer vehicle purchases financed, (ii) vehicle service contracts with third-party providers, and (iii) other vehicle protection products with third-party providers. We primarily sell these products on a straight commission basis; however, in certain cases, we also participate in the future underwriting profit on certain extended service contracts pursuant to retrospective commission arrangements with the issuers of those contracts, which is recognized as earned.

We may be charged back for commissions related to financing, vehicle service contracts, or other vehicle protection products in the event of early termination, default, or prepayment of the contracts by customers (“chargebacks”).

However, our exposure to loss generally is limited to the commissions that we receive. These commissions are recorded at the time of the sale of the vehicles, net of an estimated liability for chargebacks.

We estimate our liability for chargebacks on an individual product basis using our historical chargeback experience, based primarily on cancellation data we receive from third parties that sell and administer these products. Our estimated liability for chargebacks totaled \$116.8 million at December 31, 2016, and \$97.3 million at December 31, 2015.

Chargebacks are influenced by the volume of vehicle sales in recent years and increases or decreases in early termination rates resulting from cancellation of vehicle service contracts and other vehicle protection products, defaults, refinancings, payoffs before maturity, and other factors. While we consider these factors in the estimation of our chargeback liability, actual events may differ from our estimates, which could result in an adjustment to our estimated liability for chargebacks. The increase in our liability for chargebacks is largely attributable to increases in vehicle unit volume and product penetration in recent years, product mix, and an overall increase in the cancellation rates of finance and insurance products. Our actual chargeback experience has not been materially different from our recorded estimates. A 10% change in our estimated cancellation rates would have changed our estimated liability for chargebacks at December 31, 2016, by approximately \$11.5 million.

See Note 18 of the Notes to Consolidated Financial Statements for further information regarding chargeback liabilities.

Self-Insurance Liabilities

Under our self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles, and claims-handling expenses as part of our various insurance programs, including property and casualty, employee medical benefits, automobile, and workers’ compensation. Costs in excess of this retained risk per claim may be insured under various contracts with third-party insurance carriers. We review our claim and loss history on a periodic basis to assist in assessing our future liability. The ultimate costs of these retained insurance risks are estimated by management and by third-party actuarial evaluation of historical claims experience, adjusted for current trends and changes in claims-handling procedures. Our results could be adversely impacted by claims and other expenses related to our self-insurance programs if future occurrences and claims differ from these assumptions and historical trends. Self-insurance liabilities totaled \$75.9 million at December 31, 2016, and \$74.8 million at December 31, 2015. Our actual loss experience has not been materially different from our recorded estimates.

Revenue Recognition

Revenue consists of the sales of new and used vehicles, sales of parts and services, commissions from finance and insurance products, and sales of other products. We recognize revenue in the period in which products are sold or services are provided. We recognize vehicle and finance and insurance revenue when a sales contract has been executed, the vehicle has been delivered, and payment has been received or financing has been arranged. Rebates, holdbacks, floorplan assistance, and certain other incentives received from manufacturers are recorded as a reduction of the cost of the vehicle and recognized into income upon the sale of the vehicle or when earned under a specific manufacturer program, whichever is later. See Note 1 of the Notes to Consolidated Financial Statements for further information regarding revenue recognition.

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Income Taxes

Estimates and judgments are used in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We regularly evaluate the recoverability of our deferred tax assets and provide valuation allowances to offset portions of deferred tax assets due to uncertainty surrounding the future realization of such deferred tax assets. Valuation allowances are based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and the implementation of tax-planning strategies. We adjust the valuation allowance in the period we determine it is more likely than not that deferred tax assets will or will not be realized. If a change in circumstances results in a change in our ability to realize our deferred tax assets, our tax provision would be adjusted in the period when the change in circumstances occurs.

Accounting for our income taxes also requires significant judgment in the evaluation of our uncertain tax positions and in the calculation of our provision for income taxes. Accounting standards prescribe a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate available evidence to determine if it appears more likely than not that an uncertain tax position will be sustained on an audit by a taxing authority, based solely on the technical merits of the tax position. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settling the uncertain tax position.

Although we believe we have adequately provided for our uncertain tax positions, the ultimate outcome of these tax matters may differ from our expectations. We adjust our accruals in light of changing facts and circumstances, such as the completion of a tax audit, expiration of a statute of limitations, the refinement of an estimate, and interest accruals associated with uncertain tax positions until they are resolved. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

Our future effective tax rates could be affected by changes in our deferred tax assets or liabilities, the valuation of our uncertain tax positions, or by changes in tax laws, regulations, accounting principles, or interpretations thereof.

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Reported Operating Data

(\$ in millions, except per vehicle data)	Years Ended December 31,		2016 vs. 2015		2015 vs. 2014		
	2016	2015	Variance	%	2014	Variance	%
			Favorable / (Unfavorable)	Variance		Favorable / (Unfavorable)	Variance
Revenue:							
New vehicle	\$12,255.8	\$11,995.0	\$260.8	2.2	\$10,972.2	\$1,022.8	9.3
Retail used vehicle	4,481.7	4,370.3	111.4	2.5	3,988.9	381.4	9.6
Wholesale	513.6	398.4	115.2	28.9	396.8	1.6	0.4
Used vehicle	4,995.3	4,768.7	226.6	4.8	4,385.7	383.0	8.7
Finance and insurance, net	894.6	868.7	25.9	3.0	750.8	117.9	15.7
Total variable operations ⁽¹⁾	18,145.7	17,632.4	513.3	2.9	16,108.7	1,523.7	9.5
Parts and service	3,321.4	3,082.8	238.6	7.7	2,822.5	260.3	9.2
Other	141.9	146.8	(4.9)		177.6	(30.8)	
Total revenue	\$21,609.0	\$20,862.0	\$747.0	3.6	\$19,108.8	\$1,753.2	9.2
Gross profit:							
New vehicle	\$635.8	\$673.1	\$(37.3)	(5.5)	\$650.1	\$23.0	3.5
Retail used vehicle	334.9	358.4	(23.5)	(6.6)	363.2	(4.8)	(1.3)
Wholesale	(17.3)	(4.7)	(12.6)		(2.6)	(2.1)	
Used vehicle	317.6	353.7	(36.1)	(10.2)	360.6	(6.9)	(1.9)
Finance and insurance	894.6	868.7	25.9	3.0	750.8	117.9	15.7
Total variable operations ⁽¹⁾	1,848.0	1,895.5	(47.5)	(2.5)	1,761.5	134.0	7.6
Parts and service	1,434.7	1,338.0	96.7	7.2	1,196.6	141.4	11.8
Other	30.5	28.0	2.5		30.6	(2.6)	
Total gross profit	3,313.2	3,261.5	51.7	1.6	2,988.7	272.8	9.1
Selling, general, and administrative expenses	2,349.4	2,263.5	(85.9)	(3.8)	2,079.6	(183.9)	(8.8)
Depreciation and amortization	143.4	127.4	(16.0)		106.9	(20.5)	
Franchise rights impairment	—	15.4	15.4		—	(15.4)	
Other income, net	(69.1)	(17.9)	51.2		(18.6)	(0.7)	
Operating income	889.5	873.1	16.4	1.9	820.8	52.3	6.4
Non-operating income (expense) items:							
Floorplan interest expense	(76.5)	(58.3)	(18.2)		(53.3)	(5.0)	
Other interest expense	(115.5)	(90.9)	(24.6)		(86.7)	(4.2)	
Loss on debt extinguishment	—	—	—		(1.6)	1.6	
Interest income	1.1	0.1	1.0		0.2	(0.1)	
Other income (loss), net	3.7	(1.3)	5.0		2.9	(4.2)	
Income from continuing operations before income taxes	\$702.3	\$722.7	\$(20.4)	(2.8)	\$682.3	\$40.4	5.9
Retail vehicle unit sales:							
New vehicle	337,622	339,080	(1,458)	(0.4)	318,008	21,072	6.6
Used vehicle	225,713	227,290	(1,577)	(0.7)	214,910	12,380	5.8
	563,335	566,370	(3,035)	(0.5)	532,918	33,452	6.3
Revenue per vehicle retailed:							
New vehicle	\$36,300	\$35,375	\$925	2.6	\$34,503	\$872	2.5
Used vehicle	\$19,856	\$19,228	\$628	3.3	\$18,561	\$667	3.6
Gross profit per vehicle retailed:							

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New vehicle	\$1,883	\$1,985	\$(102)	(5.1)	\$2,044	\$(59)	(2.9)
Used vehicle	\$1,484	\$1,577	\$(93)	(5.9)	\$1,690	\$(113)	(6.7)
Finance and insurance	\$1,588	\$1,534	\$54	3.5	\$1,409	\$125	8.9
Total variable operations ⁽²⁾	\$3,311	\$3,355	\$(44)	(1.3)	\$3,310	\$45	1.4

⁽¹⁾ Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.

⁽²⁾ Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

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	Years Ended December 31,		
	2016 (%)	2015 (%)	2014 (%)
Revenue mix percentages:			
New vehicle	56.7	57.5	57.4
Used vehicle	23.1	22.9	23.0
Parts and service	15.4	14.8	14.8
Finance and insurance, net	4.1	4.2	3.9
Other	0.7	0.6	0.9
Total	100.0	100.0	100.0
Gross profit mix percentages:			
New vehicle	19.2	20.6	21.8
Used vehicle	9.6	10.8	12.1
Parts and service	43.3	41.0	40.0
Finance and insurance	27.0	26.6	25.1
Other	0.9	1.0	1.0
Total	100.0	100.0	100.0
Operating items as a percentage of revenue:			
Gross profit:			
New vehicle	5.2	5.6	5.9
Used vehicle-retail	7.5	8.2	9.1
Parts and service	43.2	43.4	42.4
Total	15.3	15.6	15.6
Selling, general, and administrative expenses	10.9	10.8	10.9
Operating income	4.1	4.2	4.3
Other operating items as a percentage of total gross profit:			
Selling, general, and administrative expenses	70.9	69.4	69.6
Operating income	26.8	26.8	27.5
	December 31,		
	2016	2015	
Days supply:			
New vehicle (industry standard of selling days)	61 days	68 days	
Used vehicle (trailing calendar month days)	44 days	43 days	

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Same Store Operating Data

We have presented below our operating results on a same store basis to reflect our internal performance. The “Same Store” amounts presented below include the results of our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us. For example, the results for a store acquired in February 2015 would be included only in our same store comparison of 2016 to 2015, not in our same store comparison of 2015 to 2014. Therefore, the amounts presented in the year 2015 column that is being compared to the year 2016 column may differ from the amounts presented in the year 2015 column that is being compared to the year 2014 column.

(\$ in millions, except per vehicle data)	Years Ended December 31,				Years Ended December 31,			
	2016	2015	Variance Favorable / (Unfavorable)	% Variance	2015	2014	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	\$ 11,288.4	\$ 11,605.0	\$ (316.6)	(2.7)	\$ 11,576.5	\$ 10,885.3	\$ 691.2	6.3
Retail used vehicle	4,123.5	4,201.1	(77.6)	(1.8)	4,209.2	3,957.8	251.4	6.4
Wholesale	471.5	387.4	84.1	21.7	390.7	395.0	(4.3)	(1.1)
Used vehicle	4,595.0	4,588.5	6.5	0.1	4,599.9	4,352.8	247.1	5.7
Finance and insurance, net	834.6	841.4	(6.8)	(0.8)	846.1	745.6	100.5	13.5
Total variable operations ⁽¹⁾	16,718.0	17,034.9	(316.9)	(1.9)	17,022.5	15,983.7	1,038.8	6.5
Parts and service	3,054.2	2,966.2	88.0	3.0	2,973.3	2,793.1	180.2	6.5
Other	141.6	146.1	(4.5)		146.7	176.3	(29.6)	
Total revenue	\$ 19,913.8	\$ 20,147.2	\$ (233.4)	(1.2)	\$ 20,142.5	\$ 18,953.1	\$ 1,189.4	6.3
Gross profit:								
New vehicle	\$ 590.2	\$ 656.2	\$ (66.0)	(10.1)	\$ 642.7	\$ 646.0	\$ (3.3)	(0.5)
Retail used vehicle	311.5	345.9	(34.4)	(9.9)	346.3	359.6	(13.3)	(3.7)
Wholesale	(15.0)	(4.3)	(10.7)		(4.7)	(2.2)	(2.5)	
Used vehicle	296.5	341.6	(45.1)	(13.2)	341.6	357.4	(15.8)	(4.4)
Finance and insurance	834.6	841.4	(6.8)	(0.8)	846.1	745.6	100.5	13.5
Total variable operations ⁽¹⁾	1,721.3	1,839.2	(117.9)	(6.4)	1,830.4	1,749.0	81.4	4.7
Parts and service	1,324.3	1,286.5	37.8	2.9	1,285.7	1,182.5	103.2	8.7
Other	28.0	26.7	1.3		27.1	30.2	(3.1)	
Total gross profit	\$ 3,073.6	\$ 3,152.4	\$ (78.8)	(2.5)	\$ 3,143.2	\$ 2,961.7	\$ 181.5	6.1
Retail vehicle unit sales:								
New vehicle	310,351	326,306	(15,955)	(4.9)	329,431	314,683	14,748	4.7
Used vehicle	206,365	216,628	(10,263)	(4.7)	220,538	212,731	7,807	3.7
Total	516,716	542,934	(26,218)	(4.8)	549,969	527,414	22,555	4.3
Revenue per vehicle retailed:								
New vehicle	\$ 36,373	\$ 35,565	\$ 808	2.3	\$ 35,141	\$ 34,591	\$ 550	1.6
Used vehicle	\$ 19,982	\$ 19,393	\$ 589	3.0	\$ 19,086	\$ 18,605	\$ 481	2.6
Gross profit per vehicle retailed:								
New vehicle	\$ 1,902	\$ 2,011	\$ (109)	(5.4)	\$ 1,951	\$ 2,053	\$ (102)	(5.0)
Used vehicle	\$ 1,509	\$ 1,597	\$ (88)	(5.5)	\$ 1,570	\$ 1,690	\$ (120)	(7.1)
Finance and insurance	\$ 1,615	\$ 1,550	\$ 65	4.2	\$ 1,538	\$ 1,414	\$ 124	8.8
Total variable operations ⁽²⁾	\$ 3,360	\$ 3,395	\$ (35)	(1.0)	\$ 3,337	\$ 3,320	\$ 17	0.5

⁽¹⁾ Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.

(2) Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

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	Years Ended December 31,		Years Ended December 31,	
	2016 (%)	2015 (%)	2015 (%)	2014 (%)
Revenue mix percentages:				
New vehicle	56.7	57.6	57.5	57.4
Used vehicle	23.1	22.8	22.8	23.0
Parts and service	15.3	14.7	14.8	14.7
Finance and insurance, net	4.2	4.2	4.2	3.9
Other	0.7	0.7	0.7	1.0
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	19.2	20.8	20.4	21.8
Used vehicle	9.6	10.8	10.9	12.1
Parts and service	43.1	40.8	40.9	39.9
Finance and insurance	27.2	26.7	26.9	25.2
Other	0.9	0.9	0.9	1.0
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	5.2	5.7	5.6	5.9
Used vehicle-retail	7.6	8.2	8.2	9.1
Parts and service	43.4	43.4	43.2	42.3
Total	15.4	15.6	15.6	15.6

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New Vehicle

(\$ in millions, except per vehicle data)	Years Ended December 31,		2016 vs. 2015			2015 vs. 2014		
	2016	2015	Variance		2014	Variance		
			Favorable	%		Favorable	%	
			/	(Unfavorable)		/	(Unfavorable)	
Reported:								
Revenue	\$12,255.8	\$11,995.0	\$260.8	2.2	\$10,972.2	\$1,022.8	9.3	
Gross profit	\$635.8	\$673.1	\$(37.3)	(5.5)	\$650.1	\$23.0	3.5	
Retail vehicle unit sales	337,622	339,080	(1,458)	(0.4)	318,008	21,072	6.6	
Revenue per vehicle retained	\$36,300	\$35,375	\$925	2.6	\$34,503	\$872	2.5	
Gross profit per vehicle retained	\$1,883	\$1,985	\$(102)	(5.1)	\$2,044	\$(59)	(2.9)	
Gross profit as a percentage of revenue	5.2	% 5.6	%		5.9	%		
Days supply (industry standard of selling days)	61 days	68 days						

	Years Ended December 31,		2016 vs. 2015			2015 vs. 2014		
	2016	2015	Variance		2014	Variance		
			Favorable	%		Favorable	%	
			/	(Unfavorable)		/	(Unfavorable)	
Same Store:								
Revenue	\$11,288.4	\$11,605.0	\$(316.6)	(2.7)	\$11,576.5	\$10,885.3	\$691.2 6.3	
Gross profit	\$590.2	\$656.2	\$(66.0)	(10.1)	\$642.7	\$646.0	\$(3.3) (0.5)	
Retail vehicle unit sales	310,351	326,306	(15,955)	(4.9)	329,431	314,683	14,748 4.7	
Revenue per vehicle retained	\$36,373	\$35,565	\$808	2.3	\$35,141	\$34,591	\$550 1.6	
Gross profit per vehicle retained	\$1,902	\$2,011	\$(109)	(5.4)	\$1,951	\$2,053	\$(102) (5.0)	
Gross profit as a percentage of revenue	5.2	% 5.7	%		5.6	% 5.9	%	

The following discussion of new vehicles is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$967.4 million, \$390.0 million, and \$86.9 million in new vehicle revenue and \$45.6 million, \$16.9 million, and \$4.1 million in new vehicle gross profit for 2016, 2015, and 2014, respectively, is related to acquisition and divestiture activity.

2016 compared to 2015

Same store new vehicle revenue decreased during 2016, as compared to 2015 as a result of a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was primarily due to certain manufacturers' disruptive marketing and sales incentive programs, which resulted in a more competitive automotive retail environment.

Same store revenue PVR during 2016 benefited from an increase in the average selling prices for vehicles in all three segments, as well as lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices.

Same store gross profit PVR decreased during 2016, as compared to 2015, primarily due to the disruptive manufacturer marketing and sales incentive programs described above, which resulted in a more competitive automotive retail environment.

2015 compared to 2014

Same store new vehicle revenue increased during 2015, as compared to 2014, as a result of increases in same store unit volume and revenue PVR. The increase in same store unit volume was primarily due to replacement demand and

improved

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market conditions, including increased consumer borrowing and confidence. New product offerings from certain automotive manufacturers also favorably impacted same store unit volume.

Same store revenue PVR during 2015 benefited from an increase in the average selling prices for Domestic and Import vehicles, partially offset by a decrease in the average selling price for Premium Luxury vehicles. Same store revenue PVR also benefited from a shift in mix away from Import vehicles, which have relatively lower average selling prices. In addition, same store revenue PVR benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices. Same store gross profit PVR decreased during 2015, as compared to 2014, primarily due to decreases in gross profit PVR for vehicles at our Premium Luxury and Import stores due to increased inventory levels and changes in manufacturer incentive programs, as well as a competitive automotive retail environment. During the fourth quarter of 2015, we experienced greater compression in our new vehicle gross profit PVR due to these factors.

Net New Vehicle Inventory Carrying Benefit

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit in accordance with generally accepted accounting principles.

(\$ in millions)	Years Ended December 31,			
	2016	2015	Variance 2016 vs. 2015	Variance 2015 vs. 2014
Floorplan assistance	\$124.0	\$117.8	\$6.2	\$106.2
New vehicle floorplan interest expense	(71.5)	(55.3)	(16.2)	(50.6)
Net new vehicle inventory carrying benefit	\$52.5	\$62.5	\$(10.0)	\$55.6

2016 compared to 2015

The net new vehicle inventory carrying benefit decreased in 2016, as compared to 2015, primarily due to an increase in floorplan interest expense, partially offset by an increase in floorplan assistance. Floorplan interest expense increased due to higher average vehicle floorplan payable balances during the year, which was due in part to the acquisitions we completed in 2016 and 2015, and higher interest rates. Floorplan assistance increased due to an increase in the floorplan assistance rate per unit and benefited from the acquisitions we completed in 2016 and 2015.

2015 compared to 2014
The net new vehicle inventory carrying benefit increased in 2015, as compared to 2014, primarily due to an increase in floorplan assistance, partially offset by an increase in floorplan interest expense. Floorplan assistance increased due to higher new vehicle sales and an increase in the floorplan assistance rate per unit. Floorplan interest expense increased due to higher average vehicle floorplan payable balances during the year.

New Vehicle Inventories

Our new vehicle inventories were \$2.8 billion or 61 days supply at December 31, 2016, as compared to new vehicle inventories of \$2.9 billion or 68 days supply at December 31, 2015. We had 75,117 units in new vehicle inventory at December 31, 2016, and 80,442 units at December 31, 2015. The decrease in new vehicle inventory days supply at December 31, 2016, as compared to December 31, 2015, is primarily due to steps we have taken to align our inventory in response to the current market conditions.

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Used Vehicle

(\$ in millions, except per vehicle data)	Years Ended December 31,							
			2016 vs. 2015				2015 vs. 2014	
	2016	2015	Favorable	Variance	2014	Favorable	Variance	
			/			/		
			(Unfavorable)			(Unfavorable)		
Reported:								
Retail revenue	\$4,481.7	\$4,370.3	\$111.4	2.5	\$3,988.9	\$381.4	9.6	
Wholesale revenue	513.6	398.4	115.2	28.9	396.8	1.6	0.4	
Total revenue	\$4,995.3	\$4,768.7	\$226.6	4.8	\$4,385.7	\$383.0	8.7	
Retail gross profit	\$334.9	\$358.4	\$(23.5)	(6.6)	\$363.2	\$(4.8)	(1.3)	
Wholesale loss	(17.3)	(4.7)	(12.6)		(2.6)	(2.1)		
Total gross profit	\$317.6	\$353.7	\$(36.1)	(10.2)	\$360.6	\$(6.9)	(1.9)	
Retail vehicle unit sales	225,713	227,290	(1,577)	(0.7)	214,910	12,380	5.8	
Revenue per vehicle retailed	\$19,856	\$19,228	\$628	3.3	\$18,561	\$667	3.6	
Gross profit per vehicle retailed	\$1,484	\$1,577	\$(93)	(5.9)	\$1,690	\$(113)	(6.7)	
Gross profit as a percentage of retail revenue	7.5	% 8.2	%		9.1	%		

Days supply (trailing calendar month days) 44 days 43 days

	Years Ended December 31,							
			2016 vs. 2015				2015 vs. 2014	
	2016	2015	Favorable	Variance	2015	2014	Favorable	Variance
			/			/		
			(Unfavorable)			(Unfavorable)		
Same Store:								
Retail revenue	\$4,123.5	\$4,201.1	\$(77.6)	(1.8)	\$4,209.2	\$3,957.8	\$251.4	6.4
Wholesale revenue	471.5	387.4	84.1	21.7	390.7	395.0	(4.3)	(1.1)
Total revenue	\$4,595.0	\$4,588.5	\$6.5	0.1	\$4,599.9	\$4,352.8	\$247.1	5.7
Retail gross profit	\$311.5	\$345.9	\$(34.4)	(9.9)	\$346.3	\$359.6	\$(13.3)	(3.7)
Wholesale loss	(15.0)	(4.3)	(10.7)		(4.7)	(2.2)	(2.5)	
Total gross profit	\$296.5	\$341.6	\$(45.1)	(13.2)	\$341.6	\$357.4	\$(15.8)	(4.4)
Retail vehicle unit sales	206,365	216,628	(10,263)	(4.7)	220,538	212,731	7,807	3.7
Revenue per vehicle retailed	\$19,982	\$19,393	\$589	3.0	\$19,086	\$18,605	\$481	2.6
Gross profit per vehicle retailed	\$1,509	\$1,597	\$(88)	(5.5)	\$1,570	\$1,690	\$(120)	(7.1)
Gross profit as a percentage of retail revenue	7.6	% 8.2	%		8.2	% 9.1	%	

The following discussion of used vehicles is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$358.2 million, \$169.2 million, and \$31.1 million in retail used vehicle revenue and \$23.4 million, \$12.5 million, and \$3.6 million in retail used vehicle gross profit for 2016, 2015, and 2014, respectively, is related to acquisition and divestiture activity.

2016 compared to 2015

Same store retail used vehicle revenue decreased during 2016, as compared to 2015, as a result of a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was driven by a competitive automotive retail environment, as well as a decrease in trade-in volume associated with the decrease in new vehicle sales, partially offset by an increase in sales of certified pre-owned vehicles. Same store unit volume was also

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adversely impacted by manufacturer safety recalls, including the Takata airbag inflator recall, and the application of our previous open safety recall policy. Effective in the fourth quarter of 2016, we modified our recall policy to permit the retail sale of certain used vehicles with an open recall, where parts are not available to complete the recall and full disclosure is made to the purchaser.

Same store revenue PVR benefited from an increase in the average selling price of used vehicles for all three segments, and a shift in mix toward Premium Luxury vehicles and the increase in sales of certified pre-owned vehicles, both of which have relatively higher average selling prices.

Same store gross profit PVR decreased during 2016, as compared to 2015, primarily due to margin pressure resulting from new vehicle gross profit PVR compression during the same period combined with the application of our previous open safety recall policy.

2015 compared to 2014

Same store retail used vehicle revenue increased during 2015, as compared to 2014, due to increases in same store unit volume and revenue PVR. Same store unit volume was driven by an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume associated with new vehicle sales.

Same store revenue PVR benefited from an increase in the average selling price of used vehicles at our Domestic, Import, and Premium Luxury stores, and an increase in sales of certified pre-owned vehicles, which have relatively higher average selling prices.

Same store gross profit PVR decreased during 2015, as compared to 2014, primarily due to compressed gross profit PVRs for certified pre-owned vehicles, particularly in our Premium Luxury segment. During the fourth quarter of 2015, we experienced greater compression in our used vehicle gross profit PVR, which was largely a result of gross profit PVR compression for new vehicles during the same period.

Used Vehicle Inventories

Used vehicle inventories were \$559.1 million or 44 days supply at December 31, 2016, compared to \$539.7 million or 43 days supply at December 31, 2015. We had 36,678 units in used vehicle inventory at December 31, 2016, and 36,299 units at December 31, 2015.

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Parts & Service

(\$ in millions)	Years Ended December 31,		2016 vs. 2015		2014	2015 vs. 2014	
	2016	2015	Favorable / (Unfavorable)	Variance		Favorable / (Unfavorable)	Variance
Reported:							
Revenue	\$3,321.4	\$3,082.8	\$238.6	7.7	\$2,822.5	\$260.3	9.2
Gross profit	\$1,434.7	\$1,338.0	\$96.7	7.2	\$1,196.6	\$141.4	11.8
Gross profit as a percentage of revenue	43.2	% 43.4	%		42.4	%	
	Years Ended December 31,		2016 vs. 2015		2015 vs. 2014		
			Variance		Variance		
			Favorable / (Unfavorable)		Favorable / (Unfavorable)		
	2015	2015	2014	2014			
			Favorable / (Unfavorable)		Favorable / (Unfavorable)		
Same Store:							